

CITY OF EARLVILLE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

June 30, 3013

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CITY OF EARLVILLE

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dan Wheeler	Mayor	Jan. 2014
Mark Salow	Mayor Pro tem	Jan. 2014
Shannon Richardson	Council Member	Jan. 2014
Daryld Lawin	Council Member	Jan. 2014
Ed Gibbs	Council Member	Jan. 2016
Bob Peters	Council Member	Jan. 2016
Linda Gaul	Clerk/Treasurer	Indefinite
William G. Blum	Attorney	Resigned Sept 10, 2012
Luke Guthrie	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Earlville, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing the audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of

the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net position and by fund of the cash balances at July 1, 2012.

Qualified Opinions

In our opinion, except for the effects of the matter discussed in the "Basis for Qualified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activity, each major fund and the aggregate remaining fund information of the City of Earlville as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Earlville's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, in-

cluding comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, except for the effects of the matter discussed in the "Basis for Qualified Opinions" paragraph as it relates to Schedule 1, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

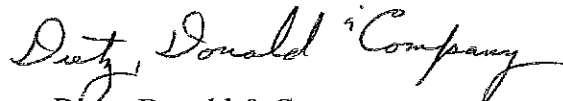
The other information, Management's Discussion and Analysis and the Budgetary Comparison Information on pages 7 through 13 and 28 through 29, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2013 on our consideration of the City of Earlville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Earlville's internal control over financial reporting and compliance.

Elkader, Iowa

August 23, 2013


Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Earlville provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

Since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data have been provided if available.

2013 FINANCIAL HIGHLIGHTS

- The cash basis net position for the governmental activities increased \$ 169,023 or 21.2% to \$ 966,816 for the fiscal year ended June 30, 2013, due primarily to increases in the Special Revenue, Road Use Tax and Local Option Sales Tax Funds.
- The cash basis net position for the business type activities decreased \$ 51,361 or 6.6% to \$ 728,205 from June 30, 2012 to June 30, 2013.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Statement of Activities and Net Position presents the City's net position. Over time, increases and decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Position is divided into two kinds of activities:

1. Governmental Activities include public safety, public works, health and social services culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
2. Business Type Activities include the waterworks, the sanitary sewer system and the electric system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include [a] the General Fund, [b] the

Special Revenue Funds such as Road Use Tax and the Local Option Sales Tax and, [c] the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Electric Funds, the latter two are considered to be major funds of the City.

The required financial statement for the proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$ 797,793 to \$ 966,816. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)

	<u>Year Ended June 30, 2013</u>
Receipts:	
Program receipts:	
Charges for service	\$ 151
Operating grants and contributions	94
General Receipts:	
Property tax	289
Local option sales tax	68
Unrestricted interest on investments	5
Other general receipts	<u>11</u>
Total receipts	<u>618</u>

Disbursements:	
Public safety	64
Public works	111
Health and social services	1
Culture and recreation	93
Community and economic development	1
General government	71
Debt service	<u>108</u>
Total disbursements	<u>449</u>
Change in cash basis net position	169
Cash basis net position beginning of year	<u>798</u>
Cash basis net position end of year	<u>\$ 967</u>

The cash basis net position for the City's governmental activities increased approximately \$ 169,000, due primarily to increases in the Special Revenue, Road Use Tax and Local Option Sales Tax Funds.

The cost of all governmental activities was approximately \$ 449,000. However, as shown in the Statement of Activities and Net Position on page 16, the amount taxpayers ultimately financed for these activities was approximately \$ 203,000 because some of the cost was paid by those directly benefited from the programs (approximately \$ 151,000) or by other governments and organizations that subsidized certain programs with grants and contributions (approximately \$ 94,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$ 356,000 of taxes (some of which could only be used for certain programs) and with other receipts, such as interest.

Changes in Cash Basis Net Position of Business Type Activities
(Expressed in Thousands)

	Year Ended <u>June 30, 2013</u>
Receipts	
Program receipts:	
Charges for service:	
Water	\$ 68
Sewer	76
Electric	503
Operating grants	14

General Receipts	
Unrestricted interest on investments	4
Other general receipts	<u>86</u>
Total receipts	<u>751</u>
Disbursements:	
Water	69
Sewer	170
Electric	<u>564</u>
Total disbursements	<u>803</u>
Change in cash basis net position	(52)
Cash basis net position beginning of year	<u>780</u>
Cash basis net position end of year	<u>\$ 728</u>

The cash balance decreased approximately \$ 52,000 from the prior year due primarily to approximately \$ 85,000 being spent on new meters and approximately \$ 35,000 being spent on a sewer system survey.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Earlville completed the year, its governmental funds reported a combined fund balance of \$ 966,816, an increase of \$ 169,023 from last year's total of \$ 797,793. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$ 57,886 from the prior year to \$ 602,990. Less was spent in the public works function than anticipated.

The Special Revenue, Road Use Tax Fund cash balance increased \$ 36,223 to \$ 106,874. The City intends to use these funds to upgrade City equipment and improve the condition of city streets.

The Special Revenue, Local Option Sales Tax Fund increased \$ 61,150 to \$ 225,080. These funds are restricted to improvement of city streets.

The Debt Service Fund balance increased \$ 6,059 to a balance of \$ 14,889. Bond principal and interest payments were \$ 108,218 for the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Sewer Fund cash balance decreased \$ 92,937 to \$ 31,244, due primarily to the disbursements of \$ 50,474 to replace meters and \$ 35,133 for a system survey.

The Enterprise, Electric Fund cash balance increased \$ 42,689 to \$ 672,838, due primarily to receipt of sinking fund deposits of \$ 84,266 from South Iowa Municipal Electric Cooperative Association upon refinancing of their debt.

BUDGETARY HIGHLIGHTS

Over the course of the year the City amended its budget once. The amendment was approved on May 13, 2013 and resulted in an increase in operating disbursements of approximately \$ 151,100 related primarily to meter replacement in the Enterprise, Sewer and Electric Funds.

The City's receipts were \$ 105,904 less than budgeted. This was primarily due to the City receiving less in grants than anticipated

Total disbursements were \$ 235,036 less than budgeted. Actual disbursements for the public works, culture and recreation, and business-type activities functions were \$ 64,338, \$ 22,221, and \$ 104,773, respectively, less than the amended budget. This was primarily due to the City delaying equipment purchases.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$ 81,600 of notes and other long-term debt outstanding compared to \$ 992,600 last year, as shown below.

	<u>Outstanding Debt at Year-End</u> <u>(Expressed in Thousands)</u>	
	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
General obligation notes	\$ 519	620
Revenue notes	45	55
Lease /purchase agreement	248	248
Total	<u>\$ 812</u>	<u>923</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 519,000 is less than its constitutional debt limit of nearly \$ 1.7 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Earlville's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees that will be charged for various City activities. The City's population was 812 in 2010 compared to 900 in 2000 and 751 in 1970. The current downward trend is expected to continue.

These indicators were taken into account when adopting the budget for fiscal year 2014. Amounts available for appropriation in the operating budget are approximately \$ 1.18 million, a decrease of 6.8% from the amended fiscal 2013 budget. Budgeted disbursements are expected to increase by approximately \$ 143,000.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$ 449,000 by the close of fiscal year 2014.

CONTACTING THE CITY'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Linda Gaul, City Clerk; 19 Northern Avenue; Earlville, Iowa 52041.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF EARLYVILLE
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
As of and for the year Ended June 30, 2013

Functions/Programs: Governmental activities:	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Public safety	\$ 63,611	57,944	10,000	4,333	-	4,333
Public works	111,162	53,866	77,762	20,466	-	20,466
Health and social services	600	-	-	(600)	-	(600)
Culture and recreation	92,944	32,304	5,447	(55,193)	-	(55,193)
Community and economic development	1,254	-	1,160	(94)	-	(94)
General government	70,920	5,522	-	(65,398)	-	(65,398)
Debt service	108,218	1,356	-	(106,862)	-	(106,862)
Total governmental activities	448,709	150,992	94,369	(203,348)	-	(203,348)
Business type activities:						
Water	69,328	68,148	-	-	(1,180)	(1,180)
Sewer	169,412	76,163	-	-	(93,249)	(93,249)
Electric	563,987	503,193	13,765	-	(47,029)	(47,029)
Total business type activities	802,727	647,504	13,765	-	(141,458)	(141,458)
Total	\$ 1,251,436	798,496	108,134	(203,348)	(141,458)	(344,806)
General Receipts:						
Property tax and other city tax levied for:						
General purposes						
Debt service				209,576	-	209,576
Tax increment financing				46,949	-	46,949
Local option sales tax				31,959	-	31,959
Unrestricted interest on investments				67,859	-	67,859
Miscellaneous				5,042	3,926	8,968
Total general receipts				10,986	86,171	97,157
Change in cash basis net position				372,371	90,097	462,468
Cash basis net position beginning of year				169,023	(51,361)	117,662
Cash basis net position end of year				797,793	779,566	1,577,359
Cash Basis Net Position				\$ 966,816	728,205	1,695,021
Restricted:						
Nonexpendable:						
Meter deposits						
Expendable:				\$ -	20,891	20,891
Library				15,034	-	15,034
Streets				331,954	-	331,954
Debt service				14,889	-	14,889
Other purposes				19,093	-	19,093
Unrestricted				585,846	707,314	1,293,160
Total cash basis net position				\$ 966,816	728,205	1,695,021

See notes to financial statements.

Exhibit B

CITY OF EARLVILLE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2013

	Special Revenue					
	General	Road Use Tax	Local Option Sales Tax	Debt Service	Nonmajor	Total
Receipts:						
Property tax	\$ 179,052	-	-	46,786	29,749	255,587
Tax increment financing	-	-	-	-	31,959	31,959
Other city tax	664	-	67,859	163	111	68,797
Licenses and permits	2,353	-	1,118	15	-	2,353
Use of money and property	8,996	-	-	-	150	10,279
Intergovernmental	54,811	77,762	-	-	-	132,573
Charges for service	98,134	-	-	-	-	98,134
Special assessments	1,880	-	-	1,356	-	3,236
Miscellaneous	14,814	-	-	-	-	14,814
Total receipts	360,704	77,762	68,977	48,320	61,969	617,732
Disbursements:						
Operating:						
Public safety	63,611	-	-	-	-	63,611
Public works	54,811	41,539	7,827	-	6,985	111,162
Health and social services	600	-	-	-	-	600
Culture and recreation	55,172	-	-	-	7,772	92,944
Community and economic development	1,254	-	-	-	-	1,254
General government	62,370	-	-	-	8,550	70,920
Debt service	-	-	-	108,218	-	108,218
Total disbursements	267,818	41,539	7,827	108,218	23,307	448,709
Excess (deficiency) of receipts over (under) disbursements	92,886	36,223	61,150	(59,898)	38,662	169,023
Other financing sources (uses):						
Operating transfers in	-	-	-	65,957	-	65,957
Operating transfers out	(35,000)	-	-	-	(30,957)	(65,957)
Total other financing sources (uses)	(35,000)	-	-	65,957	(30,957)	-
Change in cash balances	57,886	36,223	61,150	6,059	7,705	169,023
Cash balances beginning of year	565,104	70,651	163,930	8,830	9,278	797,793
Cash balances end of year	\$ 602,990	106,874	225,080	14,889	16,983	966,816

(continued)

Exhibit B
(continued)

CITY OF EARLVILLE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2013

	Special Revenue					Total
	General	Road Use Tax	Local Option Sales Tax	Debt Service	Nonmajor	
Cash Basis Fund Balances						
Restricted for:						
Library	\$ 15,034	-	-	-	-	15,034
Streets	-	106,874	225,080	-	-	331,954
Debt service	-	-	-	14,889	-	14,889
Other purposes	23,989	-	-	-	19,093	19,093
Assigned for public safety	563,967	-	-	-	(2,110)	561,857
Unassigned						
Total cash basis fund balances	\$ 602,990	106,874	225,080	14,889	16,983	966,816

See notes to financial statements.

CITY OF EARLVILLE
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2013

	Enterprise			
	Sewer	Electric	Nonmajor Water	Total
Operating receipts:				
Charges for service	\$ 76,163	503,193	68,148	647,504
Operating disbursements				
Business type activities	83,805	527,870	56,828	668,503
Excess (deficiency) of operating receipts over (under) operating disbursements	(7,642)	(24,677)	11,320	(20,999)
Non-operating receipts (disbursements):				
Intergovernmental	\$ -	13,765	-	13,765
Interest on investments	312	3,547	67	3,926
Miscellaneous	-	86,171	-	86,171
Debt service	-	-	(12,500)	(12,500)
Meter replacement	(50,474)	(34,992)	-	(85,466)
System survey	(35,133)	-	-	(35,133)
Miscellaneous	-	(1,125)	-	(1,125)
Net non-operating receipts (disbursements)	(85,295)	67,366	(12,433)	(30,362)
Excess (deficiency) of receipts over (under) disbursements	(92,937)	42,689	(1,113)	(51,361)
Cash balances beginning of year	124,181	630,149	25,236	779,566
Cash balances end of year	\$ 31,244	672,838	24,123	728,205
Cash Basis Fund Balances				
Restricted:				
Nonexpendable:				
Meter deposits	\$ -	20,891	-	20,891
Unrestricted	31,244	651,947	24,123	707,314
Total cash basis fund balances	\$ 31,244	672,838	24,123	728,205

See notes to financial statements.

CITY OF EARLVILLE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

(1) Summary of Significant Accounting Policies

The City of Earlville is a political subdivision of the State of Iowa located in Delaware County. It was first incorporated in 1882 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Earlville has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and [1] the ability of the City to impose its will on that organization or [2] the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Delaware County Solid Waste Commission, Delaware County Joint E911 Service Board and the South Iowa Municipal Electric Cooperative Association.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's meter deposits.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often has constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1] charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2] grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local sales tax voted in by the citizens of Earlville. The referendum states that the tax is to be used for road construction and maintenance.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statement, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling state legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

(2) **Cash**

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high

rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2013, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$ 44,402 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust is unrated.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	General		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 57,000	5,362	15,000	2,250	72,000	7,612
2015	58,000	4,785	15,000	1,500	73,000	6,285
2016	59,000	4,180	15,000	750	74,000	4,930
2017	60,000	3,548	-	-	60,000	3,548
2018	61,000	2,888	-	-	61,000	2,888
2019-2022	224,000	4,428	-	-	224,000	4,428
Total	\$ 519,000	25,191	45,000	4,500	564,000	29,691

The resolution providing for the issuance of the revenue notes included the following provision:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.

(4) Lease-purchase Agreement

Annual debt service requirements to maturity for the City's lease-purchase agreement to lease two electric generation units are as follows:

Year Ending June 30,	<u>Lease-Purchase Agreement</u>	
	<u>Electric Generation Units</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 48,248	3,335
2015	48,778	2,925
2016	49,308	2,413
2017	50,368	1,748
2018	50,898	942
	<u>\$ 247,600</u>	<u>11,363</u>

The resolution authorizing the implementation of this lease-purchase agreement includes the following:

- (a) The lease is a limited obligation of the City payable solely from revenues generated from its municipal electric system and other monies made available by the City. The lease shall never constitute a debt of the City within the meaning of any constitutional provision or statutory limitation and shall never constitute or give rise to a pecuniary liability of the City or a charge against its general credit or general fund. The lease does not constitute a charge, lien, or encumbrance, legal or equitable, upon any property of the City.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan member and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS; P.O. Box 9117; Des Moines, Iowa 50306-9117

Regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2013 were \$ 11,763, equal to the required contributions for the year.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There is one active and no retired members in the plan. Participants must be 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$ 1,062 for family coverage. For the year ended June 30, 2013, the City contributed \$ 9,916 and plan members eligible for benefits contributed \$ 2,926.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time payable to employees at June 30, 2013, primarily related to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 4,400
Comp time	<u>5,700</u>
Total	<u>\$ 10,100</u>

The liability has been computed on rates of pay in effect at June 30, 2013.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 35,000
	Special Revenue:	
	Urban Renewal Tax Increment	<u>30,957</u>
Total		<u>\$ 65,957</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage in the past fiscal year.

(10) Purchase Commitments

At June 30, 2013, the City has made commitments to make the following purchases:

<u>Description</u>	<u>Amount</u>
Generator Retrofit	\$ 46,413
Street resurfacing	60,339
Skidloader	16,500
Pick-up Truck	<u>26,500</u>
Total	<u>\$ 149,752</u>

(11) Deficit Balance

The Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance of \$ 2,110 at June 30, 2013. The deficit balance was a result of debt service requirements exceeding urban renewal tax increment financing collections in prior years. The deficit will be eliminated with future urban renewal increment financing receipts.

OTHER INFORMATION

CITY OF EAKVILLE
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES-
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL AND PROPRIETARY FUNDS
OTHER INFORMATION
Year Ended June 30, 2013

	Governmental Funds		Proprietary Funds		Total	Budgeted Amounts		Final to Total Variance
	Actual		Actual			Original	Final	
Receipts:								
Property tax	\$ 255,587	-	-	-	255,587	241,508	241,508	14,079
Tax increment financing	31,959	-	-	-	31,959	30,957	30,957	1,002
Other city tax	68,797	-	-	-	68,797	62,929	62,929	5,868
Licenses and permits	2,353	-	-	-	2,353	1,000	1,000	1,353
Use of money and property	10,279	3,926	-	-	14,205	2,400	5,400	8,805
Intergovernmental	132,573	13,765	-	-	146,338	103,200	103,200	43,138
Charges for service	98,134	647,504	-	-	745,638	688,200	733,200	12,438
Special assessments	3,236	-	-	-	3,236	-	-	3,236
Miscellaneous	14,814	86,171	-	-	100,985	5,000	85,000	15,985
Total receipts	617,732	751,366	1,369,098	1,135,194	1,263,194			105,904
Disbursements:								
Public safety	63,611	-	-	-	63,611	74,219	78,719	15,108
Public works	111,162	-	-	-	111,162	175,500	175,500	64,338
Health and social services	600	-	-	-	600	800	800	200
Culture and recreation	92,944	-	-	-	92,944	99,165	115,165	22,221
Community and economic development	1,254	-	-	-	1,254	7,500	7,500	6,246
General government	70,920	-	-	-	70,920	85,950	91,550	20,630
Debt service	108,218	-	-	-	108,218	74,738	109,738	1,520
Business type activities	-	802,727	-	-	802,727	817,500	907,500	104,773
Total disbursements	448,709	802,727	1,251,436	1,335,372	1,486,472			235,036
Excess (deficiency) of receipts over (under) disbursements	169,023	(51,361)	117,662	(200,178)	(223,278)			340,940
Balances beginning of year	797,793	779,566	1,577,359	1,577,356	1,577,356			3
Balances end of year	\$ 966,816	728,205	1,695,021	1,377,178	1,354,078			340,943

See accompanying independent auditor's report and notes to other information-
budgetary reporting.

CITY OF EARLVILLE

Notes to Other Information - Budgetary Reporting

June 30, 2013

The budgetary comparison is presented as Other Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. The nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2013, one budget amendment increased budgeted disbursements by \$ 151,100. The budget amendment is reflected in the final budgeted amounts.

SUPPLEMENTARY INFORMATION

CITY OF EARLVILLE
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2013

	Special Revenue		
	Urban Renewal Tax Increment	Employee Benefits	Total
Receipts:			
Property tax	\$ -	29,749	29,749
Tax increment financing	31,959	-	31,959
Other city tax	-	111	111
Use of money and property	51	99	150
Total receipts	32,010	29,959	61,969
Disbursements:			
Operating:			
Public works	-	6,985	6,985
Culture and recreation	-	7,772	7,772
General government	-	8,550	8,550
Total disbursements	-	23,307	23,307
Excess of receipts over disbursements	32,010	6,652	38,662
Other financing uses:			
Operating transfers out	(30,957)	-	(30,957)
Change in cash balances	1,053	6,652	7,705
Cash balances beginning of year	(3,163)	12,441	9,278
Cash balances end of year	\$ (2,110)	19,093	16,983
Cash Basis Fund Balances			
Restricted for other purposes	\$ -	19,093	19,093
Unassigned	(2,110)	-	(2,110)
Total cash basis fund balances	\$ (2,110)	19,093	16,983

See accompanying independent auditor's report.

CITY OF EARLYVILLE
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2013

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Ambulance	Aug 13, 2008	4.00%	\$ 90,000	45,000	-	45,000	-	1,305
City hall/swimming pool	Sep 26, 2011	0.00	360,000	360,000	-	36,000	324,000	-
City hall/swimming pool	Nov 16, 2011	2.75	250,000	215,000	-	20,000	195,000	5,913
Total				\$ 620,000	-	101,000	519,000	7,218
Revenue notes:								
Water	Jun 29, 1998	5.00%	\$ 155,000	55,000	-	10,000	45,000	2,500
Lease-purchase agreement								
Electric-generation units	Feb 29, 2012	0.85-1.85%	\$ 247,600	247,600	-	-	247,600	-

See accompanying independent auditor's report.

CITY OF EARLVILLE
DEBT MATURITIES
June 30, 2013

General Obligation Notes					
Year Ending June 30,	City Hall/Swimming Pool		City Hall/Swimming Pool		
	Issued Sep 26, 2011		Issued Nov 16, 2011		
	Interest		Interest		
	Rates	Amount	Rates	Amount	Total
2014	0%	\$ 36,000	2.75%	\$ 21,000	57,000
2015	0	36,000	2.75	22,000	58,000
2016	0	36,000	2.75	23,000	59,000
2017	0	36,000	2.75	24,000	60,000
2018	0	36,000	2.75	25,000	61,000
2019	0	36,000	2.75	26,000	62,000
2020	0	36,000	2.75	27,000	63,000
2021	0	36,000	2.75	27,000	63,000
2022	0	36,000		-	36,000
Total		\$ 324,000		\$ 195,000	519,000

Revenue Notes			Lease-Purchase Agreement	
Year Ending June 30,	Water		Electric Generation Units	
	Issued Jun 29, 1998		Issued Feb 29, 2012	
	Interest Rates	Amount	Interest Rates	Amount
2014	5.0%	\$ 15,000	0.85%	\$ 48,248
2015	5.0	15,000	1.05	48,778
2016	5.0	15,000	1.35	49,308
2017		-	1.60	50,368
2018		-	1.85	50,898
Total		<u>\$ 45,000</u>		<u>\$ 247,600</u>

See accompanying independent auditor's report.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Earlville, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the City's basic financial statements and have issued our report thereon dated August 23, 2013. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Earlville's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Earlville's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Earlville's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Earlville's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Earlville's Responses to Findings

The City of Earlville's responses to findings in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Earlville's responses and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in

considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Earlville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

August 23, 2013



Dietz, Donald & Company
Certified Public Accountants
FEIN 42-1172392

CITY OF EARLVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2013

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-13 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted substantially all accounting functions are performed by one individual.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain maximum internal control possible under the circumstances. For instance, a City official could receive and then review bank statements before giving them to the individual responsible for account reconciliations.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize elected officials whenever possible to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

CITY OF EARLVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2013

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-13 Certified Budget - Disbursements for the year ended June 30, 2013 did not exceed the amount budgeted.
- II-B-13 Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-13 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-13 Business Transactions - No business transactions between the City and City officials were noted.
- II-E-13 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- II-F-13 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-13 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-13 Revenue Notes and Lease-Purchase Agreement - The Enterprise, Water Fund had net operating receipts of \$ 11,320, while its debt service requirement was \$ 12,500. This may violate the revenue note resolution.

The Enterprise, Electric Fund had a net operating deficit of \$ 24,677, which may violate the resolution approving the lease-purchase agreement.

Recommendation - The City should consider raising water and electric rates enough to bring both funds into compliance with their debt resolutions.

Response - We will consider this.

Conclusion - Response acknowledged.

CITY OF EARLVILLE
SCHEDULE OF FINDINGS
Year Ended June 30, 2013

II-I-13 Financial Condition - The General Fund had an unassigned fund balance of \$ 563,967, while General Fund disbursements were only \$ 267,918. The unassigned General Fund balance would handle 25 months of disbursements at that rate. Typically a City should strive to have 3 to 6 months disbursements in their unassigned General Fund Balance.

Recommendation - The City take steps to reduce the unassigned General Fund Balance.

Response - The City reduced its budgeted property taxes by \$ 25,000 in fiscal year 2014 and the Council is considering several different projects.

Conclusion - Response accepted.

II-J-13 Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

II-K-13 Financial Condition - The Special Revenue, Urban Renewal Tax Increment Fund had a deficit balance of \$ 2,110 at June 30, 2013.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - Future urban renewal tax increment financing collection will eliminated this deficit.

Conclusion - Response accepted.